



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 3/4/2005

**GAIN Report Number:** CH5020

## China, Peoples Republic of

### Cotton and Products

## China's Cotton Planted Area to Drop 12-17 Percent for MY05/06

### 2005

**Approved by:**

Maurice House  
U.S. Embassy, Beijing

**Prepared by:**

James Butterworth & Wu Xinping

---

**Report Highlights:**

Recent surveys by Ministry of Agriculture and China Cotton Research Institute concluded Chinese farmers intent to plant 11.5 percent and 16.9 percent fewer hectares respectively. As such, cotton area for MY05/06 is down to 4.78 to 5.05 MHA from the 5.69 MHA in MY04/05.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Beijing [CH1]  
[CH]

## INTRODUCTION

This report summarizes Chinese farmers' planting intention for the coming year, cotton prices, cotton demand, and the relationship between growth in textile production and cotton prices. It is based on the following sources (Chinese only):

- 1) China's Ministry of Agriculture (MOA), Circular "Fixed Rural Survey Team," dated February 2, 2005 and published on MOA's website February 22, 2005, [http://www.agri.gov.cn/xztz/t20050222\\_322390.htm](http://www.agri.gov.cn/xztz/t20050222_322390.htm) (Accessed March 2, 2005)
- 2) China Academy of Agricultural Science's (CASS) China Cotton Research Institute (CRI), "Planting Intentions Survey," as published on MOA's website as [http://www.agri.gov.cn/fxycpd/mh/t20050225\\_324711.htm](http://www.agri.gov.cn/fxycpd/mh/t20050225_324711.htm) February 25, 2005. (Accessed March 2, 2005) The complete survey reportedly is available on a fee-based membership access at <http://www.ccppi.com.cn>
- 3) Ministry of Commerce (MOC), "2005 Commodity Price Prospect Report" [http://scyxs.mofcom.gov.cn/article/200502/20050200355041\\_1.xml#](http://scyxs.mofcom.gov.cn/article/200502/20050200355041_1.xml#), February 17, 2005. (Accessed March 2, 2005)
- 4) Interview with Mr. Chen Xiwen, "Farmer's Daily," February 1, 2005. Beijing.

## PLANTED AREA

On February 25, 2005, CRI released the results of its annual cotton planting intention survey. It concluded Chinese cotton farmers intend to plant 16.9 percent fewer hectares in MY05/06 than they did a year earlier. Total planted area is expected to decrease to 4.78 million hectares (MHa) from 5.69 MHA for MY04/05. The latter is the official figure released China's National Statistics Bureau (NSB) and is the figure MOA also used as the base for comparison in its survey

CRI's survey covered 3628 cotton farmers in 246 townships in 121 large cotton-producing counties. In the three cotton planting regions, the planted area in the Yellow River region is expect to decrease more than in any other area -- down by 20 percent; followed by the Yangtze River region (-17 percent) and the Northwest (-4.2 percent.) Analyzing the decreases by provinces, Henan is expected to experience the largest decrease -- down by 29.3 percent, following by Anhui (-21.3 percent), Shandong (-18 percent), Hubei (-17.6 percent), Hebei (-10 percent), Jiangsu (-6.6 percent), and Xinjiang (-4.2 percent).

MOA's recently published survey found that Chinese farmers intent to plant 11.5 percent fewer hectares of cotton this year than last, which is a much smaller decrease than CRI's 16.9 percent decrease discussed above. The MOA circular noted that cotton production in MY04/05 reached record of 6.32 MMT for

## PRICES

According CRI's survey/report, in CY04, cotton prices dropped by 29.6 percent, while price for agricultural inputs increased 26.5 percent. Cotton profit for CY04 stood at US\$762/HA as compared to the US\$1252/HA in CY03.

The CRI survey went on to compare the profitability of cotton relative to grain crops. It found the cotton to grain price ratio dropped by 50 percent. In the Yangtze River Region,

cotton to rice price ratio dropped to 6.5-7:1 from 12-16:1 in CY03. In the Yellow River region, cotton to wheat price ratio down to 6.5:1 from 11.5:1 in CY03. Reasonable price ratios are 12:1 for cotton to rice, and 8:1 for cotton to wheat, respectively. In this case, farmers might opt to plant cotton and grain crops. Currently, however, the ratios just make farmers favor grain undoubtedly. In fact, in the Yellow River region, based on wheat plus corn pattern, the revenue is expected to be US\$2723/HA, whereas the wheat plus cotton pattern is US\$1,824/HA, equivalent to only 67 percent of the former.

Mr. Chen Xiwen, a very senior agricultural advisor to China's top leaders, opined in a recent "Farmers Daily" article that 2004 area planted to autumn and winter grain crops increased by 1 MHA because farmers did not make sufficient profit from cotton thus reduced cotton area with grain crops. Based on this comment, CnCotton estimated the 1 MHA more planted to grains crops, CnCotton.com estimated that approximately two-thirds was from area planted to cotton last year.

## DEMAND

The CRI survey estimated domestic cotton use in 2005 is expected to grow by 10-12 percent, meaning total demand will be 8.5 to 8.65 MMT (including 400,000 MT for non-spinable use). Although cotton production for MY05/06 reached a record of 6.32 MMT, strong demand is expected to keep supplies tight and prices high. The expected decrease in planted area will further tighten supplies and push prices higher.

According to the MOA Circular, the total value of textile exports amounted to US\$95.1 billion, which is 20.5 percent more than the previous year. Looking forward, MOA expects the elimination of the textile quota will further bolster textile exports in CY05, and consequently cotton demand is expected to increase. It has continued to grow over the past three years -- from 6.8 MMT for CY02 to 7.3 MMT for CY03 and 7.7 MMT for CY04.

MOC also expects cotton demand to grow as a result of integration of the textile trade that is expected as a result of the end of textile quotas. It expects the cotton price is likely to be steady or increase modestly.

## CONCLUSIONS

MOA concluded maintaining a stable cotton production and the market share of domestic cotton are in China's interest because it is the largest cotton user and textile exporter. MOA therefore requested agriculture departments at various levels take the necessary measures soon to stabilize cotton area. MOA suggested that total area should be 5.33 MHA and production 6 MMT for MY05/06. The circular also proposed several measures to increase yields through technical assistance, including improving seed quality. It also discussed upgrading the quality of China's cotton and marketing measures to increase profitability.

Based on the results of CCRI's survey, it concluded that the cotton supply during MY05/06 is forecast to be tight if the current crop area drops any further. It echoed MOA's opinion that maintaining a stable cotton-producing base in MY05/06 is crucial. As CnCotton.com noted in its analysis of the MOC survey, however, it is normal for farmers to select the most profitable crops. Also, given that there are millions of small farmers making individual planting decisions, it will be difficult for the GOC to "control" cotton area.

**FAS COMMENTS**

China's cotton production and prices have experienced dramatic fluctuations in recent years and concluded the CY04 sharp price drop had seriously hurt cotton farmers' interest, especially in the Yellow River region.

In addition to what is discussed above, FAS has discussed planting intentions with many knowledgeable sources. After assessing all sources, FAS concurs that the cotton area for MY05/06 will decline within the range of 10 to 17 percent from previous year's 5.69 MHA.